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COMPANY SECRET
FSMC/08/04

FUJITSU SERVICES SERVICES MANAGEMENT COMMITTEE

FEBRUARY 2008

MAJOR ACCOUNTS

NHS

Care Records Service (CRS) Implementation

The eighth CRS implementation took place in West Somerset during December. This was the largest implementation so far and has been regarded as a great success.

Contract Reset

The Contract Re-set negotiations have continued throughout October-January under cover of the Memorandum of Understanding (MOU) in place. The background to this was covered in the November 2007 Quarterly Report. The intent is to obtain a binding Heads of Agreement by Financial Year End which will cover the following key elements:

- A revised solution and deployment plan.
- An acceptable level of profit for FS.
- A risk transfer formula enabling FS to bill the NHS once new releases are made available to the Trusts, irrespective of utilisation.
- A revised profile of cash payments to FS which will enable the progressive reduction in the current level of contract receivable.

The task of defining the new solution and operating model has overrun its timetable and this has been escalated with senior Strategic Health Authorities (SHA) and Connecting for Health (CfH) Management.

PACS/RIS

Usage of the fully deployed PACS and RIS systems continues to grow with increased numbers of images stored with the Fujitsu Services data centre. Service performance remains high but we have conducted a joint exercise with CFH to address a service trend with one of the regional servers.

CarePlus - Child Health

On 14 January 2008 the fourth Interim Child Health solution went live in Cheltenham. This fourth successful deployment in Avon, Gloucestershire and Wiltshire (AGW) follows on from Salisbury for South Wilts Patient Care Trust (PCT) on the 10th September; Bath & North East Somerset PCT on the 12th November and Bristol on the 3rd December. The entire process went extremely smoothly thanks to the implementation lessons learnt from the previous go-lives. With these four go-lives achieved we have just a further two to go due on 11 February.

FUJ00003708

Major Opportunities
Opportunities for Ambulance, Mental Health, Data Migration and Maternity are now being considered as part of the Contract Reset discussions. There may still be options for some interim deployments especially Maternity. A £100m opportunity to supply GP systems with facilities to view across Cerner Millennium is being developed. It is likely that this will be procured in smaller commitments and the first commitment should be in the region of £30m and could be signed in Q1 of FY 2008/9.

HMRC (Aspire)

HMRC's challenge to the Aspire consortium to reduce its Business As Usual baseline operating costs culminated in a Contract Change Note being signed on 23 December 2007. As a result of agreed cost reductions, Aspire secured a 3 year contract extension to 2017, an overall increase in net order book value of £450m, and other important considerations that allow Fujitsu Services greater control over service transformation and operational efficiencies.

A transformation programme has been established to drive through cost reductions in our Data Centre Operations and other areas of the account to minimise the impact on Fujitsu Services. We are also identifying business opportunities within HMRC to obtain new revenue and profit streams that will help to recover some of the reductions in overall business levels. The impacts of the Contract Change Note are included in the Account's 2007 MTP submission.

Live Services Delivery has continued to provide excellent service to HMRC over the last quarter, with Service Credits maintained within the budgeted level and with SLA conformance running at above 99%.

The loss of critical Customer Data by HMRC, resulting in the resignation of their Chairman, inevitably increased focus on Security. At short notice we produced 7.3m letters of apology from HMRC to their customers in under 2 weeks, whilst still achieving all normal Printing SLA's. HMRC have praised our agility and responsiveness.

MOD DII(F)

Satisfactory progress has continued on the roll out. By the end of December, implemented workstations exceeded 23,000 and user accounts passed 64,000. Changes to the site delivery schedule are still being experienced primarily due to user and data migration issues which are proving more complex at larger sites. To address this, we have now put in place additional readiness checks in place prior to committing resources.

The next release of the DII/F solution requires an additional 10 weeks testing and trialling to achieve acceptance and will now be available end May. This

FUJ00003708

and the online catalogue are needed to enable the major headquarters to go ahead.

Service Management is performing strongly with all SLAs being achieved. Throughout the next 3 months, further deliveries of automated tools are needed to support higher workstation/user volumes.

The new Atlas Consortium CEO, Hugh Owen, who arrived November 2007 has been changing the structure and responsibilities which increase the responsibility of some of the Fujitsu Services managers. The new Engineering organisation will be completed and operating by January 31st 2008. The objective is to improve delivery performance and staff productivity.

There is also a review of the Implementation delivery process. A new statement of work is being produced by Fujitsu Services that will form the basis of the new end to end delivery process. This planned to be in operation by the end March 08.

The main commercial activities in progress are the settlement of claims for delays to the migration schedule, and the Implementation Statement of Work. An Interim payment for settling delays to the migration schedule was received from EDS during December 2007 and this, together with other settlements, support the forecast lifetime margin of 18%.

The next contracted phase of Increment 2 is RFC45 and currently is in the bid stage, the first price submission for this phase will be submitted from Fujitsu Services to EDS by end January 08.

IRRELEVANT

Transition of Service

Since the start of the £500m contract with IRRELEVANT in August 2007, we have now concluded all in-scope staff transfers in 41 countries. IRRELEVANT are impressed with how we have achieved transition without any deterioration of service. We have had some major service incidents to manage from the inherited infrastructure and we have done so professionally and with the appropriate level of management back-up to manage senior stakeholders.

Transformation

The very large global Transformation Programme has commenced with us achieving all contractual milestones through to mid-December. In late December one milestone was missed and it became evident that we needed to strengthen the senior team, which we have now done, we have also refined the structure of the programme; this is in progress and due to complete in mid-February. Although we are a little behind where we should be we are working constructively with the customer to manage delivery expectations. The Change Programme into the IRRELEVANT business that we are running is being very well received by IRRELEVANT business leaders.

Business Opportunities
We have large teams working on Projects and Operations associated with the Corporate Applications of Siebel and Oracle within IRRELEVANT These applications are subject to some significant upgrade projects and our pipeline of project opportunities is about £80m.

In April 2008, subject to final anti-trust approval, IRRELEVANT will acquire IRRELEVANT This presents us with an opportunity to extend Ivory out further into IRRELEVANT and we are beginning that sales engagement now – the opportunity size is in the region of £180m – with a decision likely by Autumn 2008. IBM is campaigning strongly into IRRELEVANT in North America – where we are clearly weaker – they are particularly focused on migrating IRRELEVANT Oracle to IRRELEVANT The majority of opportunity for us is in North America, where IRRELEVANT is headquartered. This presents us with new challenges for our global operating model: IRRELEVANT Service Management staff in that region are likely to be in-scope to transfer to Fujitsu Services. They are keen to have a career path as part of a global services organisation in N.A. and our proposition to IRRELEVANT will need to take account of this.

ROYAL MAIL GROUP formerly POST OFFICE ACCOUNT

Post Office Limited (POL)
The HNG-x project plan (V50) is holding firm and delivering against key milestones. POL are introducing a number of changes which are now putting the timelines and target completion dates at risk. We are working together to manage these impacts and building an internal communication plan to reset POL's key stakeholders expectations. The V50 plan has a man day forecast of 83k (which includes 7k days of change) and the commercial impact of this increase is being negotiated with POL.

Our service delivery remains consistent, although we had some service issues during December which resulted in a joint service improvement plan, however, our customer satisfaction rating remains at an all time high. We continue to review our off shore position our focus remains on back office opportunities.

RMG
Digital Media Network (DMN) project is now in full BAU service and the client is seeing real value in the solution. We have started the PR improvement plan and continue to work closely with our senior stakeholders.

Sales Campaigns
There are a number of sales opportunities within RMG, we continue to focus on the Data-centre – although CSC has had their contract extended, RMG have introduced large areas of flexibility which mean a number of opportunities still exist for FS. With additional campaigns for both Call Centres and Applications, our approach in applications is through consolidation to remove legacy systems and move to a SOA architecture.

FUJ00003708

LLOYDS TSB (LTSB)

Since the last report the Distributed Service has continued to deliver stable service and meet its SLAs. The Service Desk continues to be a focus of attention although it continues to improve. The Lean programme is being implemented with beneficial results including reduced headcount, improved quality and improving customer confidence. The LTSB Stores customer survey in October demonstrated improved user satisfaction with the Service Desk. Other service lines remain consistently satisfactory.

The activities to improve the profitability of the service are gaining traction. The Reform Programme has implemented 22 discrete reforms with cost reductions being achieved and further planned this quarter. Commercial discussions with LTSB are in progress to seek a re-price and compensation for the additional costs to Fujitsu Services of serving the increased volumes and the aged estate. This will be reviewed with LTSB senior management at the end of January. Fujitsu Services has developed and tabled its proposals for the development of the service with LTSB. The proposal includes changes to service, scope, timescale and contract. LTSB is considering its strategic options and has committed to provide a response to Fujitsu Services on its chosen direction by end-January 2008.

A focus of the Account is to deliver the contracted transformed “To-Be” service. The current target for achievement of this contractual milestone is end-March 2008. Achievement of the milestone is the transition from the As-Is to the To-Be SLAs. Progress is monitored monthly with LTSB and currently over 50% of the To-Be services are ready to go.

The Projects area continues to deliver good margin returns and monthly revenues have increased since the last report. We expect revenues to remain strong over the short term because LTSB is at the start of its new financial year. In the medium term LTSB is under financial pressure and we expect budgets in the coming year to become increasingly constrained.

The Bank’s Programme to eradicate NT4 from the estate is running further behind schedule. The client Head Office roll-out scheduled for completion September 2007 is still not complete, and the server upgrade work scheduled for completion June 2008 has not yet commenced. The delays to the refresh and centralisation of the infrastructure continue to impact Fujitsu Services’s service and delivery costs and are a major focus of the commercial discussions noted above. LTSB has commissioned Fujitsu Services to deliver virtualisation as part of its service offer – the project is in flight with a target service go live date of mid-February. We expect this new service to deliver improvements to our service revenues.

Group IT’s main focus is it’s offshore applications development strategy. To deliver the strategy a new head of Technical Delivery, Mr. Ganesh, has been appointed. Mr Ganesh replaces Mark Winterburn in the role. We anticipate an

FUJ00003708

IT Board reshuffle in the coming weeks with further appointments to key positions to be made.

David Courtley and Steve Andre met Darryl West and David Benaron in December with the next meeting scheduled for February.

MINISTRY OF JUSTICE [MoJ] (formerly DCA (Libra))

As reported in the November FSMC Major Account Report our contract with MOJ has now formally transferred to ATOS Origin and Logica.

HOME OFFICE

Client budget pressures remain in all areas of the Home Office with spend on IT services being continually raised as a concern. These constraints will remain in place and continue through into the next financial year. Having said this, the area of Borders and Immigration remains a key focus for Government and funds should be found for essential work in these areas.

Service quality continues at a high standard with the lowest level of service credit payments since inception of the contract. The annual customer satisfaction survey results have also now been received and again are at their highest level during the contract. The downside to this is that the customer sees us very much as an infrastructure services provider rather than having strong capabilities in the applications development and business change areas. We are trying to counter this through work in the Points Based Programme (PBS) but this is proving difficult.

Work has continued on PBS within the Border and Immigration Agency (BIA) but, as mentioned in the previous report delays to the programme resulted in the need to restructure. The extent of this has proven to be quite significant and there is ongoing commercial debate with the customer as to the cause of this. Notwithstanding this the need to meet a Ministerial commitment for delivery of an initial system in February 08 remains and we are committed to achieving this although the scope of the delivery will be significantly different to that which was originally envisaged. The remainder of the programme will be restructured as part of the overall commercial discussion. Successful delivery of PBS remains essential if we are to win a wider opportunity for Immigration Case Working and assuming we can deliver to the customer's satisfaction there is potential to capture this additional work without going to competition.

Within the borders area of BIA we have successfully contracted a significant infrastructure upgrade opportunity worth approximately £14.5m.

Relationships between the customer and Fujitsu Services management teams continue to grow and the previously reported joint initiative to reinvigorate governance arrangements is now in place with formal meetings being held.

FUJ00003708

Alongside of this we have continued to grow relationships at more senior (board) levels across areas of BIA.

BERR (Business, Enterprise and Regulatory Reform) formerly DTI Elgar

Service performance remains strong with excellent SLA achievement. The new Matrix 2 document management system also continues to perform well.300 users have now left BERR to join the new Department of Innovation and Skills. Although this will reduce our BERR revenues as we are picking them up together with 700 new users as part of our recent Flex contract with the Department of Innovation Universities and Skills (DIUS). We are sharing our account and delivery teams across these customers to help reduce our BERR costs as user numbers decline.
Customer satisfaction has fallen slightly to this quarter, we are working jointly with the customer to focus on improving our perception.

Benchmarking
The Dispute Resolution (DR) process mentioned in the last report has been concluded with agreement on two of the most significant issues raised by us. The final Gartner report is due to be published by the end of January and the output, as seen in the draft report, puts us in a strong position with regard to defending the value for money provided by our desktop provision.

Affordability Proposition
An opportunity has arisen to enter negotiations with BERR to extend our current services and improve our profitability whilst delivering operational expenditure savings for BERR. The customer is required to find annual year on year running cost savings of 5% and has capital funds available to fund modernisation projects this is covered in the Major Bids Report.

Other Opportunities (BERR AND DIUS)
Work is continuing apace under an MOU for the £25M Oracle ERP and grants solution for the Research Councils and the final contract is currently scheduled to be signed by 31st January.
We are also pushing Flex to the BERR and DIUS agencies and will be seeking the active help of the parent departments to extend our footprint much wider to Agencies such as Companies House and the UK Intellectual Property Office. Both are at an early stage in the pipeline

NORTHERN IRELAND CIVIL SERVICE (NICS) e-HR Programme

The "external recruitment service" for the NICS is now live delivering services to all the Northern Ireland Departments, to date 62 recruitment campaigns have been launched. The number of applicants for the administrative officer competition has risen by 280% following the transition to Fujitsu Services. With an increased number of applicants the NICS will be able to fill vacancies more effectively.

FUJ00003708

‘Employee relations service’ has been deployed successfully to 28,000 employees in all the NICS departments. The portal is in use and we are managing 1000 calls per week from Civil Servants.

The new payroll system has been built and has completed unit test, this will now being run in parallel with the existing system before going fully live in early 2008 to assure NICS and Fujitsu Services that we can manage the payroll accurately.

The design of the new internal vacancy management and performance management system is complete and this will be deployed in the spring of 2008.

Our relationship with our partners in the NICS remains strong. The new service is being formally opened by the NI Minister for Finance and Personnel, Mr Peter Robinson MP, on the 24th January.

IRRELEVANT

As reported last time the transformation program is now underway, which will include the implementation of Triole for Service .The setup of the governance and program organisation has been completed and is operational. The overall project plan which has an 18 month duration is in place and has been agreed with the customer, to date this programme is on time and budget.

All measured service levels remain at green or amber. Where appropriate we are focussed on improving the SLA’s and this is supported by the implementation of strengthened processes and procedures. The SLA task force has completed its work with the result of us not paying any service credits for 2007.
The rollout project for a new insurance application named ABS in combination with new hardware is still running, we have completed more than 6.000 clients in two regions of Germany.

We are now undertaking the due diligence for Dresdner Bank branch network and voice support. Euler Hermes DMS transition has been completed successfully and service delivery has been operational since December 2007.

Our focus remains on the European Sourcing opportunity to provide desktop support services across the remainder of Europe.

David Courtley
February 2008